COMMITTEE ON THE BUDGET
MAJORITY CAUCUS
U.S. House of Representatives
107th Congress — Washington, DC

THE STATE OF THE BUDGET

A STATUS REPORT BY THE BUDGET COMMITTEE CHAIRMAN

8 November 2001

Authorized by . . . . Jim Nussle
Budget Committee Chairman

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MEMORANDUM

TO: House Republicans
FROM: Jim Nussle, Budget Committee Chairman
SUBJECT: Current Status of Budget Developments

Overview

In fewer than 2 months, a new session of Congress will begin. It will be our first opportunity to assess, in a comprehensive way, how the events of 11 September changed our priorities in governing, now and for the future. It will be our first chance to take stock of our response so far, and determine how it will play out in the years ahead.

This memorandum is intended to help set the stage in terms of the budget, by reviewing some significant recent events.

Next spring, the budget will become the blueprint for governing in the new world we face. Our decisions then will significantly influence how we will address the war on terrorism, and our domestic priorities, for the long term. They will also determine how quickly we can return to the path of long-term fiscal balance and stability – an approach that has been essential to the strength of our Nation and the growth of its economy.

Closing the Books on 2001

On 29 October, the Federal Government closed its books on fiscal year 2001. There is plenty of good news in these numbers:

- This was the 4th consecutive year of a balanced Federal budget.
- In nominal terms, it was the second largest budget surplus in the history of the United States.
- We made the country's second largest debt repayment of $90 billion, bringing the total amount of debt paid back under Republican Leadership in the Congress to $453 billion – nearly ½ trillion dollars.

The 2001 Surplus

In 2001, we returned $41 billion of the tax overpayments Americans made (not including the $33 billion from a shift of payment dates for certain corporate taxpayers). I'm glad we did: with an economic slowdown exacerbated by the terrorist attacks of 11 September, Americans need to keep more of their money.

The budget resolution in May assumed a 2001 surplus of $186 billion (see table below). The final numbers were $59 billion lower. Virtually all of the decline in the surplus numbers from the budget resolution can be attributed to the economic slowdown.

We expect the same to be true next year, with about $71 billion in tax relief being provided and a diminution of revenues by approximately $80 billion as a result of the soft economy.

FISCAL YEAR 2001 TOTALS COMPARED TO THE BUDGET RESOLUTION
(in billions of dollars)

	Revenues	Outlays	Surplus	Debt Repayment
Budget Resolution[a]	2,135	1,948	186	167
Adjustment for actual legislation	-70	-86	16	16
Economic/technical changes through August	-54	-5	-49	-67[b]
CBO August Estimates	2,011	1,858	153	116
Emergency spending		3	-3	-3
Final economic and technical changes	-20	3	-23	-23
Final Budget Results[c]	1,990	1,863	127	90

NOTE: Figures may not add to totals because of rounding.
[a] As proposed in the conference report on H.Con.Res. 83.
[b] Includes increased borrowing for Federal credit programs identified in the President's budget.
[c] As released in the September 2001 Monthly Treasury Statement of Receipts and Outlays of the United States Government.

Emergency Responses

As Members know, within days of the terrorist attacks, Congress began moving legislation to address the most urgent needs that arose – and the process is continuing. A summary:

- The Congress approved, and the President signed, legislation that effectively will provide $40 billion to respond to the terrorist attacks.

- Congress and the President agreed to legislation providing economic assistance to air carriers, who were hit especially hard by the attacks. The full cost of this legislation is not known at this time, as the administration determines how to implement the provisions in the bill relating to victims compensation. We do know the economic assistance alone can cost $15 billion.

- Also on the horizon in Congress is an economic recovery plan. The House passed a package including nearly $100 billion in tax reductions and rebates for fiscal year 2002, and there are competing plans in the Senate to offer tax cuts and additional spending of about $60 billion.

Outlook for Fiscal Year 2002

Shortly after the attacks, the President and the bipartisan congressional leadership agreed to a total discretionary spending level of $686 billion. The agreement was intended partly to head off extended haggling at a time when the President *must* focus on other matters. The $686-billion figure includes: the additional $18.4 billion sought by the President for national defense; an additional $3.4 billion for education; emergency funding of $2.2 billion to help respond to disasters and provide more funds for the Low-Income Home Energy Assistance Program [LIHEAP].

Administration officials insist that the $686-billion package, plus emergency spending adopted so far, plus an economic recovery plan, will be enough; and the President has threatened to veto any excess spending. *This is not a time to prejudge the President's needs, or to engage in a bidding war over spending when it's a real war we face.* Congress has proved its ability to act swiftly in providing additional resources when necessary. Besides, as noted above, we will soon undertake the budget for fiscal year 2003. Legitimate additional needs can be addressed then.

We should also be concerned about some big-ticket spending measures coming over from the Senate. These include concurrent receipt of military retirement and disability benefits in the Senate-passed defense authorization bill, which could cost around $40 billion over 10 years; and expanded benefits for the mentally ill in the Labor/HHS appropriations bill, which would cost another $5.4 billion over 10 years. These measures may have some appeal on their merits, but they exceed the budget resolution and will make it that much harder next year to bring the budget into balance.

Suspending the Budget During an Economic Slowdown

The Congressional Budget Office [CBO] recently issued a report that could trigger the consideration of legislation suspending enforcement of the budget resolution and appropriations caps. It's a step we should *not* take.

Under current law, CBO must issue a report if the Department of Commerce reports the economy is growing by less than 1 percent. The original Commerce report shows the economy growing at a negligible 0.3 percent in the 2^{d} quarter, and actually declining by 0.4 percent in the 3^{d} quarter.

But now is not the time to suspend our budget controls wholesale, and for an extended period. We have already shown that Congress can make exceptions when truly necessary. Apart from those, we need to keep what few controls we have if we are bring the budget back into balance once we weather the current storm.

Treasury Announces New Debt Management Policies

The changing economic environment has important implications for how the Treasury Department manages our debt. Given, among other things, the deterioration in the economy over the short term and the likelihood the budget will be in deficit next year, the Treasury Department is scaling back its "buy-back" of Government bonds.

At the same time, Treasury recognizes that the economy and budget will revive, and it will no longer need to sell 30-year bonds and notes.

Back to Balance

We are in a new world as a result of the tragic events of 11 September and those that have followed. It is only natural that we are in a new budget world as well.

Our country, the economy, and the Federal budget have suffered a shock. Our Nation has banded together and is recovering. Our economy, too, *will* recover – and so to will our Federal budget.

Our response to the attacks and the soft economy will likely force us to detour from the long-term path of balanced budgets that we've achieved. That is what is needed at this time – we must do whatever it takes to defeat terrorism and protect Americans here at home. We cannot put a price on this effort.

But we must not lose sight of our long-term fiscal plan. In the days after 11 September, we learned once again that the great strength of this country lies in its people, and is expressed in part by the remarkable economic prosperity they create. The best way we can support this strength, and sustain long-term economic growth, is by returning stability to our fiscal policy. The detour must be temporary. We must restore balance in the budget. We must continue to pay down the national debt and virtually eliminate the public debt; and we must again be in the fiscal position to provide permanent tax relief and reform of the tax code.